



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LETCHER COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 1998

**EDWARD B. HATCHETT, JR.
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CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
LETCHER COUNTY OFFICIALS	3
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES ARISING FROM CASH TRANSACTIONS	7
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES.....	10
NOTES TO FINANCIAL STATEMENTS	12
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE.....	19
SCHEDULE OF OPERATING REVENUE.....	22
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES	31
SCHEDULE OF UNBUDGETED EXPENDITURES.....	43
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	47
COMMENTS AND RECOMMENDATIONS.....	51
APPENDIX A: CERTIFICATION OF COMPLIANCE – LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Carroll A. Smith, County Judge/Executive
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Letcher County, Kentucky, as of June 30, 1998, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Letcher County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Letcher County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky. Consequently, certain revenues and the related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when a liability is incurred. The cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising from cash transactions of Letcher County, Kentucky, and the related statement of cash receipts, cash disbursements, and changes in cash balances as of and for the year ended June 30, 1998, in conformity with the cash basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Carroll A. Smith, County Judge/Executive
Members of the Letcher County Fiscal Court

Our audit was performed for the purpose of forming an opinion on the financial statements of Letcher County, Kentucky, taken as a whole. The information provided on the accompanying schedules is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following areas of noncompliance:

- The County Should Have Required Depository Institutions To Pledge Additional Securities Of \$115,149 As Collateral And Entered Into A Written Agreement To Protect Deposits
- The Jailer Should Submit His Annual Jail Commissary Report To The County Treasurer
- The Fiscal Court Should Maintain Correct Records

In accordance with Government Auditing Standards, we have also issued our report dated August 13, 1999 on our consideration of Letcher County, Kentucky's compliance with certain provisions of laws, regulations, contracts, and grants, and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 13, 1999

LETCHER COUNTY OFFICIALS

Fiscal Year Ended June 30, 1998

Carroll A. Smith	County Judge/Executive
Harold Bolling	County Attorney
Winston Meade	County Clerk
Margaret Nichols	Circuit Court Clerk
Stephen Banks	Sheriff
Gary Cornett	Jailer
Randy Hall	Property Valuation Administrator
Phillip Hampton	County Treasurer
Delbert Anderson	Coroner
Arthur E. Jackson	Magistrate
Larry Tolliver	Magistrate
Randy Blair	Magistrate
Homer Caudill	Magistrate
Delbert Anderson	Magistrate

STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

LETCHER COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 1998

Assets and Other Resources

Assets

General Fund:	
Cash	\$ 397,020
Road and Bridge Fund:	
Cash	286,907
Jail Fund:	
Cash	8,815
Jail Commissary Fund:	
Cash	3,965
Local Government Economic Assistance Fund:	
Cash	291,289
Forestry Fund:	
Cash	3,267
Public Properties Corporation Fund:	
Cash	2,448
Senior Citizens Fund:	
Cash	25,185
Payroll Account:	
Cash	2,164
Voted Bond Fund:	
Paying Agent	2,200

Other Resources

Public Properties Corporation Fund:	
Amounts to be Provided in Future Years for Bond Payments (Note 4)	<u>46,000</u>
Total Assets and Other Resources	<u><u>\$ 1,069,260</u></u>

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 1998
 (Continued)

Liabilities and Fund Balances

Liabilities

Voted Bond Fund:

Bonds Matured and Unpresented	\$ 2,200
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Public Properties Corporation Fund:

Bonds Not Matured (Note 4)	46,000
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Retirement Account - Bank Overdraft	2,644
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Payroll Account	2,164
-----------------	-------

Fund Balances

Reserved:

Jail Commissary Fund	3,965
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Forestry Fund	3,267
---------------	-------

Public Properties Corporation Fund	2,448
------------------------------------	-------

Senior Citizens Fund	25,185
----------------------	--------

Retirement Account	(2,644)
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Unreserved:

General Fund	397,020
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Road and Bridge Fund	286,907
----------------------	---------

Jail Fund	8,815
-----------	-------

Local Government Economic Assistance Fund	291,289
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Total Liabilities and Fund Balances	<u>\$ 1,069,260</u>
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

LETCHER COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 1998

<u>Cash Receipts</u>	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
Schedule of Operating Revenue	\$ 5,228,009	\$ 2,295,153	\$ 1,364,341	\$ 186,921
Transfers In	478,065			177,400
Borrowed Money	3,320,025			
Total Cash Receipts	<u>\$ 9,026,099</u>	<u>\$ 2,295,153</u>	<u>\$ 1,364,341</u>	<u>\$ 364,321</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 4,953,794	\$ 2,129,924	\$ 1,122,292	\$ 379,224
Schedule of Unbudgeted Expenditures	3,320,039			
Transfers Out	478,065	9,665		
Bonds:				
Principal Paid	7,000			
Interest Paid	928			
Trustee Fees	1,737			
Jail Commissary Fund Expenditures	8,306			
Total Cash Disbursements	<u>\$ 8,769,869</u>	<u>\$ 2,139,589</u>	<u>\$ 1,122,292</u>	<u>\$ 379,224</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 256,230	\$ 155,564	\$ 242,049	\$ (14,903)
Cash Balance - July 1, 1997	<u>762,666</u>	<u>241,456</u>	<u>44,858</u>	<u>23,718</u>
Cash Balance - June 30, 1998	<u>\$ 1,018,896</u>	<u>\$ 397,020</u>	<u>\$ 286,907</u>	<u>\$ 8,815</u>

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 1998
 (Continued)

Jail Commissary Fund	Local Government Economic Assistance Fund	Forestry Fund	Public Properties Corporation Fund	Senior Citizens Fund
\$ 8,180	\$ 1,244,616	\$ 3,193	\$ 2,069 9,665 3,320,025	\$ 123,536 291,000
\$ 8,180	\$ 1,244,616	\$ 3,193	\$ 3,331,759	\$ 414,536
\$	\$ 886,543 468,400	\$	\$ 3,320,039 7,000 928 1,737	\$ 435,811
8,306				
\$ 8,306	\$ 1,354,943	\$ 0	\$ 3,329,704	\$ 435,811
\$ (126) 4,091	\$ (110,327) 401,616	\$ 3,193 74	\$ 2,055 393	\$ (21,275) 46,460
\$ 3,965	\$ 291,289	\$ 3,267	\$ 2,448	\$ 25,185

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 1998

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Letcher County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Jail Commissary Fund and the Public Properties Corporation Fund as part of the reporting entity.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts.

C. Basis of Accounting

The financial statements were prepared on a cash basis of accounting pursuant to Kentucky Revised Statute (KRS) 68.210 as recommended by the State Local Finance Officer. Consequently, certain revenues and related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when a liability is incurred. The cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

D. Legal Compliance - Budget

The Letcher County budget is adopted on a cash basis of accounting and laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 1998
(Continued)

Note 1. (Continued)

E. Cash and Investments (Continued)

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of June 30, 1998, the bank balances were fully insured or collateralized with collateral held by the county's agent in the county's name. However, as of August 26, 1997, the uncollateralized amount on deposit was \$115,149. The pledged collateral and FDIC insurance did not equal or exceed the amount on deposit. In addition, the county did not have a written agreement with the depository institution.

LETCHER COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 1998
 (Continued)

Note 3. Deposits (Continued)

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 26, 1997.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county's name	\$ 1,323,812
Uncollateralized and uninsured	<u>115,149</u>
Total	<u><u>\$ 1,438,961</u></u>

Note 4. Long-Term Debt

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
1998-99	\$ 1,610	\$ 7,000
1999-00	1,365	7,000
2001-01	1,120	8,000
2001-02	840	8,000
2002-03	560	8,000
2003-04	<u>280</u>	<u>8,000</u>
Totals	<u><u>\$ 5,775</u></u>	<u><u>\$ 46,000</u></u>

Note 5. Lease-Purchase Agreements

The county has entered into the following lease-purchase agreements:

<u>Description</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
Voting Machines	12/16/1994	11-25-99	N/A	\$ 12,032
Equipment - Rear Loader	05/18/1995	5-25-99	6.25%	\$ 17,187
Equipment -Sanitation Trucks	01/06/1995	1-6-99	5.75%	\$ 27,201

Note 6. Subsequent Events

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 1998
(Continued)

A former employee of the Solid Waste Department was indicted by the Letcher County Grand Jury on July 16, 1999 for failure to make the required disposition of property by obtaining monies belonging to the Letcher County Sanitation Department. This case has not come to trial as of audit fieldwork date.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

LETCHER COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 1998

<u>Budgeted Funds</u>	Budgeted Operating Revenue	Actual Operating Revenue	Over (Under) Budget
General Fund	\$ 2,618,044	\$ 2,295,153	\$ (322,891)
Road and Bridge Fund	1,277,706	1,364,341	86,635
Jail Fund	421,923	186,921	(235,002)
Local Government Economic Assistance Fund	1,150,712	1,244,616	93,904
Forestry Fund	3,500	3,193	(307)
Senior Citizens Fund	455,564	123,536	(332,028)
Totals	<u>\$ 5,927,449</u>	<u>\$ 5,217,760</u>	<u>\$ (709,689)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 5,927,449
Less: Other Financing Uses			<u>(43,000)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 5,884,449</u>

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SCHEDULE OF OPERATING REVENUE

LETCHER COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 1998

	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Revenue From Local Taxes and Excess Fees</u>				
Sheriff:				
Taxes	\$ 713,873	\$ 710,680	\$	\$
County Clerk:				
Deed Transfer Tax	18,608	18,608		
Delinquent Taxes	22,171	22,171		
Excess Fees - 1996-1997	91,580	91,580		
Tangible Personal Property Taxes:				
County Clerk	143,628	143,628		
Totals	<u>\$ 989,860</u>	<u>\$ 986,667</u>	<u>\$ 0</u>	<u>\$ 0</u>

Federal Receipts - State Treasurer

Title III Supportive, Nutrition, In-Home Services and Health Promotion	\$ 112,081	\$	\$	\$
Appalachian Regional Commission Grants -Recycling Center	19,250			
Disaster and Emergency Assistance Severe Weather	194,414		194,414	
National Forestry Receipts	873		873	
Environmental Protection Agency KY Pollution Prevention Grant	14,375	14,375		
Abandoned Mines Land Program	15,000	15,000		
Totals	<u>\$ 355,993</u>	<u>\$ 29,375</u>	<u>\$ 195,287</u>	<u>\$ 0</u>

Kentucky State Treasurer

Jail:				
Allotments	\$ 140,575	\$	\$	\$ 140,575
Medical Allotments	8,859			8,859
Driving Under The Influence Fees	2,980			2,980
Controlled Intake	21,785			21,785

LETCHER COUNTY
SCHEDULE OF OPERATING REVENUE
Fiscal Year Ended June 30, 1998
(Continued)

Jail Commissary Fund	Local Government Economic Assistance Fund	Forestry Fund	Public Properties Corporation Fund	Senior Citizens Fund
\$	\$	\$ 3,193	\$	\$
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,193</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$	\$	\$	\$	\$ 112,081
	19,250			
<u>\$ 0</u>	<u>\$ 19,250</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 112,081</u>
\$	\$	\$	\$	\$

LETCHER COUNTY
 SCHEDULE OF OPERATING REVENUE
 Fiscal Year Ended June 30, 1998
 (Continued)

	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Kentucky State Treasurer</u>				
(Continued)				
County Road Aid	\$ 974,154	\$	\$ 974,154	\$
Strip Mine Permits	66,695	66,695		
Truck License Distribution	151,651		151,651	
Courthouse Rent	150,110	150,110		
Refunds:				
Legal Process Tax	175	175		
Drivers Licenses	2,482		2,482	
Dog Licenses	575	575		
Severance Taxes:				
Coal	839,008			
Coal Impact	314,739			
Grants:				
State Grants (Area Development Fund)	87,383	80,044		
Energy Road Recovery	27,495		27,495	
Miscellaneous	8,443	8,443		
Totals	<u>\$ 2,797,109</u>	<u>\$ 306,042</u>	<u>\$ 1,155,782</u>	<u>\$ 174,199</u>
<u>Miscellaneous Revenue</u>				
Interest	\$ 40,706	\$ 12,758	\$ 12,491	\$ 366
Circuit Court Clerk:				
Jail Cost	5,226			5,226
Work Release	200			200
Jail:				
Telephone Commission Refunds	6,780			6,780
Charges for Services:				
Garbage Collection	653,456	653,456		
Tipping Fees	144,086	144,086		
Vending Machine	787	644	143	
Telephone Surcharge	160,125	160,125		
Motel Tax	22,878	2,000	550	
Donations	3,741			
Concession Sales	8,180			

LETCHER COUNTY
SCHEDULE OF OPERATING REVENUE
Fiscal Year Ended June 30, 1998
(Continued)

Jail Commissary Fund	Local Government Economic Assistance Fund	Forestry Fund	Public Properties Corporation Fund	Senior Citizens Fund
\$	\$	\$	\$	\$
	839,008			
	314,739			
				7,339
<u>\$ 0</u>	<u>\$ 1,153,747</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,339</u>
\$	\$ 12,647	\$	\$ 2,069	\$ 375
	20,328			
8,180				3,741

LETCHER COUNTY
 SCHEDULE OF OPERATING REVENUE
 Fiscal Year Ended June 30, 1998
 (Continued)

	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Miscellaneous Revenue</u> (Continued)				
Reimbursement	\$ 38,644	\$	\$	\$
Miscellaneous Items	238		88	150
Totals	<u>\$ 1,085,047</u>	<u>\$ 973,069</u>	<u>\$ 13,272</u>	<u>\$ 12,722</u>
Total Operating Revenue	<u><u>\$ 5,228,009</u></u>	<u><u>\$ 2,295,153</u></u>	<u><u>\$ 1,364,341</u></u>	<u><u>\$ 186,921</u></u>

LETCHER COUNTY
 SCHEDULE OF OPERATING REVENUE
 Fiscal Year Ended June 30, 1998
 (Continued)

Jail Commissary Fund	Local Government Economic Assistance Fund	Forestry Fund	Public Properties Corporation Fund	Senior Citizens Fund
\$	\$ 38,644	\$	\$	\$
\$ 8,180	\$ 71,619	\$ 0	\$ 2,069	\$ 4,116
\$ 8,180	\$ 1,244,616	\$ 3,193	\$ 2,069	\$ 123,536

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

LETCHER COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 1998

	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
<u>GENERAL FUND</u>			
<u>General Government</u>			
Office of County Judge/Executive:			
Salaries-			
County Judge/Executive	\$ 48,390	\$ 48,313	\$ 77
Deputy County Judge/Executive	13,729	13,664	65
Secretaries	23,701	23,585	116
New Office Equipment	2,039		2,039
Office of County Attorney:			
Salaries-			
County Attorney	31,830	31,830	
Secretaries	7,793	7,793	
Office of County Clerk:			
Fees	8,000	7,940	60
Office of Sheriff:			
Bond	1,500		1,500
Materials and Supplies	11,400	11,239	161
Fiscal Court:			
Magistrates-			
Salaries	95,490	95,400	90
Miscellaneous	31,100	27,597	3,503
Office of Property Valuation Administrator:			
Tax Appeal Board	1,200	800	400
Statutory Contribution	28,680	27,702	978
Office of County Treasurer:			
County Treasurer Salary	21,990	21,971	19

LETCHER COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

	Final Budget	Budgeted Expenditures	Under (Over) Budget
<u>GENERAL FUND (Continued)</u>			
<u>General Government (Continued)</u>			
Office of County Finance Director:			
County Finance Director Salary	\$ 20,450	\$ 20,435	\$ 15
County Law Library:			
Law Librarian Salary	600		600
Trail Commissioner:			
Salary	4,801	4,801	
Elections:			
Per Diem-			
Election Commissioners	7,000	6,800	200
Election Officers	9,000	8,544	456
Tabulators	300	200	100
Printing and Advertising	7,400	198	7,202
Contracted Services	9,000	8,286	714
Rentals-Polling Places	1,000	300	700
Voting Machines	29,000	28,878	122
Miscellaneous	1,000		1,000
Economic Development:			
Office Supplies	2,000		2,000
Courthouse:			
Janitor Salary	55,100	53,298	1,802
Utilities	85,000	74,790	10,210
Renewals and Repairs	2,100	829	1,271
Office Supplies	6,500	5,428	1,072
Materials and Supplies	3,000	2,045	955

LETCHER COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

	Final Budget	Budgeted Expenditures	Under (Over) Budget
<u>GENERAL FUND (Continued)</u>			
<u>Protection to Persons and Property</u>			
911:			
Salaries-			
Supervisor/Director	\$ 20,450	\$ 20,435	\$ 15
Laborers	45,756	45,339	417
Program Support	80,500	80,408	92
Office Supplies	8,500	1,629	6,871
Office Equipment	24,544	23,580	964
Other Equipment	5,500	1,430	4,070
Ambulance Service:			
Ambulances	18,000	18,000	
Sanitary Landfill:			
Laborers Salaries	403,000	343,194	59,806
General Operations and Maintenance	562,704	351,657	211,047
Letcher Fire and Rescue-Grant	15,000	15,000	
Office Equipment	1,200	822	378
Water and Sewer Expansion	31,000	30,605	395
Materials and Supplies	8,000	1,818	6,182
Recycling Center:			
Construction	20,000	19,329	671
<u>Social Services</u>			
Distribution to Other Agencies	2,301	2,301	
General Charity and Welfare:			
Teen Pregnancies	500	500	
Other County Liabilities:			
Lease-Purchase Agreements	66,400	66,383	17
Buildings:			
Building and Construction	125,000	112,298	12,702

LETCHER COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

	Final Budget	Budgeted Expenditures	Under (Over) Budget
<u>GENERAL FUND (Continued)</u>			
<u>Administration</u>			
General Services:			
Legal Advertising	\$ 25,000	\$ 22,097	\$ 2,903
Auditing Services	15,200	15,196	4
Legal Fees	16,900	16,100	800
KRADD Dues	24,596	16,000	8,596
Insurance	98,000	87,585	10,415
KACO	1,900	1,218	682
Fringe Benefits:			
County Contributions-			
Social Security	86,000	85,396	604
Retirement	93,000	91,731	1,269
Health Insurance	111,000	95,707	15,293
Worker's Compensation	91,000	29,610	61,390
Unemployment Insurance	4,000	1,890	2,110
Total Operating Budget	\$ 2,575,044	\$ 2,129,924	\$ 445,120
Other Financing Uses:			
Transfers to Public Properties			
Corporation Fund -	43,000	9,665	33,335
Total General Fund	\$ 2,618,044	\$ 2,139,589	\$ 478,455

ROAD AND BRIDGE FUND

General Government

Fiscal Court:

Magistrates-

Expense Allowance

\$ 18,000 \$ 18,000 \$

County Surveyor

3,600 4,154 (554)

Office of Road Supervisor/Engineer:

Road Supervisor Salary

26,012 24,581 1,431

LETCHER COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

	Final Budget	Budgeted Expenditures	Under (Over) Budget
<u>ROAD AND BRIDGE FUND (Continued)</u>			
<u>General Government (Continued)</u>			
Road Maintenance:			
Salaries-			
Road Labor	\$ 415,732	\$ 413,195	\$ 2,537
Materials and Supplies	709,531	564,869	144,662
Utilities	9,000	7,469	1,531
<u>Administration</u>			
General Services:			
School Board	400	194	206
Fringe Benefits:			
County Contributions-			
Retirement	41,000	39,755	1,245
Social Security	36,000	33,603	2,397
Health Insurance	18,431	16,472	1,959
Total Road and Bridge Fund	<u>\$ 1,277,706</u>	<u>\$ 1,122,292</u>	<u>\$ 155,414</u>

JAIL FUND

Protection to Persons and Property

Office of Jailer:			
Personnel Services-			
Salaries-			
Jailer	\$ 48,315	\$ 48,313	\$ 2
Jail Personnel	181,500	169,437	12,063
Food Service Personnel	20,078	19,841	237
Association Dues	450	250	200

LETCHER COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

	Final Budget	Budgeted Expenditures	Under (Over) Budget
<u>JAIL FUND (Continued)</u>			
<u>Protection to Persons and Property (Continued)</u>			
Office of Jailer: (Continued)			
Operations-			
Cleaning Supplies	\$ 1,625	\$ 1,533	\$ 92
Furniture and Fixtures	20,318	19,926	392
Food	31,500	31,239	261
Gasoline	300	100	200
Jail Linens	2,000	1,567	433
Office Supplies	2,000	1,897	103
Prisoner Clothing	75		75
Prisoner Hygiene	500	362	138
Routine Medical	10,415	9,524	891
Pharmaceutical	2,000	1,411	589
Staff Training	1,000	624	376
Staff Travel	860	404	456
Postal Charges	200		200
Motor Vehicle Parts	300		300
Recreational Supplies	200	8	192
Housing Prisoners - Other Counties	26,500	26,465	35
Miscellaneous Operating Expense	3,000	2,354	646
Maintenance-			
Building Repairs	3,775	3,031	744
Equipment Repairs	312	60	252
Contingent Appropriations:			
Reserve for Budget Transfers	19,200		19,200
Fringe Benefits:			
County Contributions-			
Retirement	22,000	20,674	1,326
Social Security	19,700	17,249	2,451
Health Insurance	3,800	2,955	845
Total Jail Fund	<u>\$ 421,923</u>	<u>\$ 379,224</u>	<u>\$ 42,699</u>

LETCHER COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

	Final Budget	Budgeted Expenditures	Under (Over) Budget
<u>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</u>			
<u>General Government</u>			
Office of Sheriff :			
Supplies	\$ 2,000	\$ 2,119	\$ (119)
Office of County Coroner:			
Salaries:			
Coroner	18,001	18,000	1
Deputies	4,201	4,200	1
Expense	4,000	1,541	2,459
<u>Protection to Persons and Property</u>			
Constables:			
Salaries	18,000	18,000	
Civil Defense:			
Director Salary	7,200	7,200	
County Fire Department:			
Insurance, Vehicle, and Equipment	18,000		18,000
Ambulance Service:			
Contribution	43,000	42,253	747
Public Advocacy:			
Salary	3,375		3,375
<u>General Health and Sanitation</u>			
Dog Control:			
Dog Warden Salary	15,600	15,420	180
Regional Animal Shelter	12,000	12,000	
Dog Warden Expenses	1,050	850	200

LETCHER COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

	Final Budget	Budgeted Expenditures	Under (Over) Budget
<u>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND (Continued)</u>			
<u>General Health and Sanitation (Continued)</u>			
Sanitary Landfill:			
Salaries-			
Litter Warden	\$ 13,235	\$ 13,200	\$ 35
Landfill Operator	20,486	20,421	65
Landfill Labor	29,700	29,293	407
Operations and Maintenance	170,250	129,778	40,472
Clean Community	500		500
<u>Social Services</u>			
Senior Citizens Program:			
Jenkins Center	8,200	8,086	114
Letcher County MC Program	1,000	1,000	
General Charity and Welfare:			
Pauper Burials	6,500	6,375	125
<u>Recreation and Culture</u>			
Park:			
Labor	14,400	14,315	85
Recreation	40,000	33,211	6,789
Tourism	10,000		10,000
Public Libraries:			
Literacy Program	45,106	27,116	17,990
Contribution	10,000		10,000
Community College:			
Contribution	10,000		10,000
Road Maintenance:			
Materials and Supplies	568,616	453,529	115,087
Building and Construction	7,000		7,000

LETCHER COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND (Continued)			
<u>Recreation and Culture (Continued)</u>			
Other County Liabilities:			
Lease-Purchase Agreements	\$ 11,445	\$	\$ 11,445
Fringe Benefits:			
County Contributions-			
Retirement	15,000	12,730	2,270
Social Security	13,000	10,853	2,147
Health Insurance	7,500	5,053	2,447
Contingent Appropriations:			
Reserve for Budget Transfers	<u>2,347</u>	<u></u>	<u>2,347</u>
Total Local Government Economic Assistance Fund	<u>\$ 1,150,712</u>	<u>\$ 886,543</u>	<u>\$ 264,169</u>
<u>FORESTRY FUND</u>			
<u>Forest Fire Protection</u>	<u>\$ 3,500</u>	<u>\$ 0</u>	<u>\$ 3,500</u>
<u>SENIOR CITIZENS FUND</u>			
Operations:			
Personnel - Staff Travel	\$ 219,300	\$ 211,504	\$ 7,796
Materials and Supplies	99,000	94,474	4,526
Food	54,700	54,500	200
Utilities	22,000	20,338	1,662
Miscellaneous	4,000	3,266	734
Administration:			
Office Supplies	1,000	215	785
Debt Service - Van	4,500	4,447	53
Rental	4,500	4,500	
General Operations and Maintenance	500	481	19

LETCHER COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

	Final Budget	Budgeted Expenditures	Under (Over) Budget
<u>SENIOR CITIZENS FUND (Continued)</u>			
Fringe Benefits:			
County Contributions			
Retirement	\$ 19,338	\$ 18,116	\$ 1,222
Social Security	17,000	16,093	907
Health Insurance	9,726	7,877	1,849
	<u> </u>	<u> </u>	<u> </u>
Total Senior Citizens Fund	\$ 455,564	\$ 435,811	\$ 19,753
	<u> </u>	<u> </u>	<u> </u>
Total Operating Budget - All Funds	\$ 5,884,449	\$ 4,953,794	\$ 930,655
	<u> </u>	<u> </u>	<u> </u>
Other Financing Uses:			
Transfer to Public Properties			
Corporation Fund	43,000	9,665	33,335
	<u> </u>	<u> </u>	<u> </u>
TOTAL BUDGET - ALL FUNDS	<u>\$ 5,927,449</u>	<u>\$ 4,963,459</u>	<u>\$ 963,990</u>

SCHEDULE OF UNBUDGETED EXPENDITURES

LETCHER COUNTY
SCHEDULE OF UNBUDGETED EXPENDITURES

Fiscal Year Ended June 30, 1998

<u>Expenditure Items</u>	<u>Public Properties Corporation Fund</u>
Architect Fees	\$ 53,087
Courthouse Construction	<u>3,266,952</u>
Total	<u>\$ 3,320,039</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable Carroll A. Smith, County Judge/Executive
Members of the Letcher County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Letcher County, Kentucky, as of and for the year ended June 30, 1998, and have issued our report thereon dated August 13, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Letcher County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying Comments and Recommendations.

- The County Should Have Required Depository Institutions To Pledge Additional Securities Of \$115,149 As Collateral And Entered Into A Written Agreement To Protect Deposits
- The Jailer Should Submit His Annual Jail Commissary Report To The County Treasurer

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Letcher County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Letcher County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Comments and Recommendations.

- The Fiscal Court Should Maintain Correct Records

Honorable Carroll A. Smith, County Judge/Executive
Members of the Letcher County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the following reportable condition to be a material weakness.

- The Fiscal Court Should Maintain Correct Records

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 13, 1999

COMMENTS AND RECOMMENDATIONS

LETCHER COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 1998

NONCOMPLIANCES

1. The County Should Have Required Depository Institutions To Pledge Additional Securities Of \$115,149 As Collateral And Entered Into A Written Agreement To Protect Deposits

The county's deposits were not adequately secured by \$115,149 as of August 26, 1997. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide collateral for interest-bearing and noninterest-bearing deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. The county should require the depository institution to provide collateral to insure deposits at all times. We also recommend the county enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

County Judge: Agree and will do this.

2. The Jailer Should Submit His Annual Jail Commissary Report To The County Treasurer

The Jailer did not submit to the County Treasurer an annual report on the Jail Commissary account. According to KRS 441.135, the Jailer may maintain a canteen for the benefit of the prisoners lodged in the jail. All profits from the canteen shall be used for the benefit or recreation of the prisoners. The Jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the County Treasurer on the canteen account. We recommend the Jailer comply with KRS 441.135.

Management's Response:

County Judge: We were not aware this needed to be done. We agree he should do this if he is required.

LETCHER COUNTY
SCHEDULE OF COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 1998
(Continued)

REPORTABLE CONDITIONS

The Fiscal Court Should Maintain Correct Records

KRS 43.075(3) and the Uniform System of Accounts established by the State Local Finance Officer, requires the County Treasurer to keep accurate records and detailed accounts of the financial transactions of the county. We note that the cash balance on the County Treasurer's financial statement did not agree to the reconciled balance in the bank. The General Fund had a variance of \$5,028 more per bank than the County Treasurer's books. The Road Fund had a variance of \$3,883 less per bank than the County Treasurer's books. These amounts should agree and any variances should be reconciled. We recommend the County Treasurer reconcile the revenue and expenditures balances on the books with the balances in the bank.

Management's Response:

County Treasurer: Employees are transferred from one department to another but salaries were not transferred from the proper funds.

County Judge: A note was made of these discrepancies at the time. A copy of the letter was sent to the Department of Local Government. Eventually the discrepancy was found and corrected.

**CERTIFICATION OF COMPLIANCE – LOCAL
GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

LETCHER COUNTY FISCAL COURT

Fiscal Year Ended June 30, 1998

Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
LETCHER COUNTY FISCAL COURT

The Letcher County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

Carroll G. Smith

Name
County Judge/Executive

Philip W. Hays

Name
County Treasurer